HERITAGE ISLE

CREDIT UNION LTD

Financial Statements

For the Year Ended 30 June 2016

Heritage Isle Credit Union Ltd

Financial Statements

For the Year Ended 30 June 2016

ACN 087 651 278
AFSL & ACL No. 246648

CONTENTS

Our Vision:

"To excel in the provision of high quality financial services of value to our community"

Our Mission:

"To be a successful Tasmanian business that enhances the prosperity of its members by being their preferred provider of financial services, and delivering cost-effective services by committed and quality staff."

Chairman's Report

For the Year Ended 30 June 2016

Dear Members,

For my second year as Chair of HICU, I am delighted to present to you, on behalf of your Board of Directors, the fifty first Annual Report outlining developments affecting Heritage Isle Credit Union during the year ended 30 June 2016.

Heritage Isle Credit Union has performed above expectations with a significant profit before tax of $276,876, well exceeding our budgeted forecast of $151,276. With assets increasing to $94.8M over the last 12 months, our Credit Union has been able to remain relevant in the challenging and unchartered region of extremely low interest rates, with little prospect of an increase in rates in the near future.

Despite an ongoing downturn in the property market, the Credit Union has increased our mortgage portfolio through this financial year, and continues to offer competitive mortgage rates and other services to our members mainly within the Tamar Valley region.

The Board continues to have four Board Committees, Audit, Corporate Governance, Remuneration and Risk, and I wish to thank Chairs, Elizabeth Skirving, Stuart Blom, Doug Burt and Chris Sundstrup respectively for their leadership. The Board appointed a Risk and Compliance Specialist, early in 2015, who is well supported by Chris Sundstrup and the Risk Committee. This has resulted in significant progress in risk analysis and reduction strategies, by ensuring a high level of focus on risk potential and ongoing risk monitoring for our business. Particular focus has been on policy compliance development to continued improvement in our systems.

Our CEO, Annette Griffin, continues to lead our Credit Union with enthusiasm and the support of her staff. On behalf of my fellow directors, we thank Annette for her commitment and professionalism during the past year and we continue to offer our support to her during these difficult economic times.

At the last Annual General Meeting, we farewelled long term director Craig Seen whose two decades of support and dedication as a director to HICU has been greatly appreciated. We also farewelled Will Homan, who resigned early in his three year term, due to pressing work commitments. Our Board welcomed new Directors, Stuart Blom and Elizabeth Skirving. Stuart was appointed by the members and brings legal expertise to the Board. Elizabeth was appointed by the Board to complete the term of Will Homan, and she brings with her excellent financial credentials.

I would like to thank my fellow Directors for their support and commitment at Board and Committee meetings over the past year. We continue to monitor and review our strategic plan with great input from directors and staff, remaining aware that we are the only credit union remaining in our island state.

Again I want to thank all our staff for their valued commitment and hard work to achieve our continued success and also thank our members for their ongoing support of our Credit Union.
I look forward to working with you, our valued members over the coming year.

E. Swain

Liz Swain
Chair HICU

CEO's Report

For the Year Ended 30 June 2016

I am delighted to present the CEO’s report for the 2015/16 financial year.

Over the past 12 months the team at Heritage Isle has provided resources to grow our business into the future and develop our products to be able to accommodate the member’s needs. From survey results, discussion with local businesses and members we believe we have been able to;

- Invest in the development of Heritage Isle “brand” by our increased number of membership leads and new business opportunities
- Grow share of wallet from current membership – by being able to offer a product line to better accommodate the requirements of our members
- Improve the competitiveness of “high impact” HICU products/services – it’s a competitive environment currently, and we believe at Heritage Isle we are very competitive when we conduct a comparison review on our interest rates, fees & charges
- Continually identify options to build scale into HICU operations – opportunity to build relationships or partnerships with other local businesses or community members

Economy - In Australia, recent data suggests that overall growth is continuing at a moderate pace, despite a very large decline in business investment. Other areas of domestic demand, as well as exports, have been expanding at a pace at or above trend.

The Reserve Bank reduced its cash rate in May 2016. The official cash rate currently sits at 1.5 per cent, which is the lowest in history.

Financials - This year has seen Heritage Isle provide a strong operating profit of $276,876 before tax. Main area of growth was our loan portfolio recording growth of 7.1%. Capital remains steady at 16.7% and Liquidity at 20.2% maintaining an operating margin of 3.64%. Total Assets now sit at $94.8m which is a positive result in the current Tasmanian economy.

Regulatory Update – Regulation and supervision has remained high on the priority list with Prudential Standard CPS220 Risk Management requiring all ADI’s to have and maintain a risk management framework that addresses its material risks and have a designated risk management function that is operationally independent to do this. To meet this requirement HICU has a Risk & Compliance Specialist who has been able to provide this requirement over the past 12 months.

Staffing – Heritage Isle maintained excellent staffing retention this year, resulting in a positive profit for the organisation. Congratulations to Mark Ford who achieved 20 years’ service with Heritage Isle in May 2016.

Education – Michelle Williams completed certificate 4 in Book Keeping and Karen Hinds Certificate 4 in Credit Management.

Amy Williams, Nicolette Bird, Erin O’Grady and Lizzie Ludbey attended the Vic/TAS - Annual Insight Conference for Mutuals in Ballarat. The conference provided opportunity for the participants to increase their knowledge on the future of technology and to network with other leaders from the Industry.

Awards – Heritage Isle were a finalist in the Employer of Choice Awards and were successful in receiving a Highly Commended award in 2016 and Heritage Isle Credit Union - winner of the National QBE Member Excellence Award for “Financial Institution of the Year”

Payments - The ongoing shift from cash to cards has seen ATM transactions continue to decline, with the availability of paywave, tap n go and contactless payments with smart phones popular with consumers. Mobile payments remain a key focus for the year ahead with Heritage Isle securing a provider for updating our ‘App’. The Heritage Isle App will be known as ‘Connect’ which will be provided through one of our leading service providers. This product to be available in October, 2016.

Heritage Isle Credit Union Ltd

Community - Heritage Isle continued their long standing relationship with the local theatre group Encore, to provide outstanding performances with Buddy Holly, Black Adder and the excitement building for wicked in 2017.

Heritage Isle were the naming rights sponsor of the Tasmanian Cricket League for the 15/16 season.
We continued our support in the Tamar Valley with the Tamar Valley Writers Festival which saw Beaconsfield come alive for the event in March, 16. Branch staff participated in this local community event, building business partnerships and strengthening school relations in the Tamar Valley. Well done to the staff for their ongoing efforts in this area.

The staff were very excited to participate in the Launceston Christmas Parade this year. What an amazing effort partnering with Encore to support the theme of “A Disney Christmas”.

This year has been very busy for Heritage Isle staff and I thank you all for your continued support to our organisation and the professional service you provide to our members on a daily basis.

I look forward to the challenges and opportunities that the forthcoming year will provide and working with you all to continue to improve the quality of service we can provide to our members.

Annette Griffin
Chief Executive Officer

Directors' Report

For the Year Ended 30 June 2016

Your directors present their report on the Company for the financial year ended 30 June 2016.

1. Information on Directors

The directors holding office at the date of this report are listed below. All directors held office for the duration of the financial year and up until the date of this report except as noted. Each director is a member of the Credit Union and holds one ordinary share in the Credit Union.

Liz Swain MBA; GAICD; Dip Met; Dip App. Sc; Dip Leader; GDip Mgt; GDip Bus; MAMI.	Chair of the Board, Member of Corporate Governance Committee, Member of the Risk Committee. Formerly employed by Rio Tinto for 43 years in a range of technical, operational and leadership roles. Diploma in Metallurgy, Diploma in Applied Science, Graduate Diploma in Business, Diploma in Leadership, Masters Degree in Business (MBA), Graduate Australian Institute of Company Directors. Chair of Liviende Board (Statewide Disability Services Provider), Chair - Beau Vista Villas (local strata community), Director - Diving Tasmania, Director - Rural Help at Hand Board, Former Chair of Esk Water and Director of Ben Lomond Water Boards. Member Australasian Mutuals Institute Ltd. Credit Union Director since November 2013.
Kevin Preece MAICD, MAMI	Member of Audit Committee and Member of the Corporate Governance Committee. A Trustee of the W D Booth Charitable Trust; formerly General Manager of Tasmanian Perpetual Trustees Ltd for 23 years. Member Australian Institute of Company Directors. Member Australasian Mutuals Institute Ltd. Director of Independent Living Centre Tasmania Inc since 2004. Credit Union Director since 2002.
Stuart Blom BEc LLB, GradCertLegPrac, GAICD, MAMI	Chair of Corporate Governance Committee and Member of Risk Committee. Principal, Rae & Partners Lawyers. Bachelor of Economics and Bachelor of Laws, University of Tasmania. Graduate Certificate of Legal Practice, University of Tasmania. Admitted to the Supreme Court of Tasmania as a Barrister and Solicitor in 2007. Graduate Australian Institute of Company Directors. Management Committee Member and Chair of Governance Committee, NRM North. Member Australasian Mutuals Institute Ltd. Credit Union Director since November 2015.
Maree Tetlow FAICD, MAMI	Vice Chair of the Board, Member of Audit Committee and Member of Remuneration Committee; currently Executive Officer, Northern Tasmania Development. 25 years in government, tourism and marketing agencies, and has served on various not for profit and government boards. Formerly Executive Officer at Launceston Chamber of Commerce, and Chief Executive of Tourism NT. Member Australasian Mutuals Institute Ltd and a Fellow of the Australian Institute of Company Directors. Credit Union Director since 2012.
Christian Sundstrup B.Bus; CA; MAMI	Chair Risk Committee and Member of Audit Committee. Finance Manager Aged Care Deloraine, Qualified Chartered Accountant with over 30 years experience in a broad range of small to medium enterprises. Treasurer of Ben Lomond Committee and member Australasian Mutuals Institute Ltd. Credit Union Director since 2012.
Elizabeth Skirving B.Bus, CA GAICD	Chair of Audit Committee and Member of Remuneration Committee, Currently CEO Rural Business Tasmania, Board Member Liviende Veranto, Graduate Australian Institute of Company Directors, Member of Rural Youth Tasmania 11 years and Rural Youth Tasmania Advisory Committee 15 years, Agfest Committee Member 8 years, Board Member Rural Support Tasmania 3 years. Member Australasian Mutuals Institute Ltd. Credit Union Director since filling a vacancy in December, 2015.

1. Information on Directors (continued)

Douglas Burt MAMI	Chair of the Remuneration Committe and Member of Risk Committee. Current elected LG Councillor George Town, previous, Deputy Mayor and Mayor George Town Council for 8 years. Previously employed at Rio Tinto in Electrical and Asset Management fields 40 years. Presently a consultant in Asset Management. . Member Australasian Mutuals Institute Ltd. Credit Union director since 2014.

Company Secretaries

Annette Griffin Dip.Fin.Serv.; FAMI	Chief Executive Officer Chief Executive Officer since 2012, and previously, Manager of Operations of the Credit Union since 1995. Nominated Responsible Officer under AFS Licence. Employed since 1986 in a variety of roles including Administration Officer and Branch Manager. Fellow of the Australasian Mutuals Institute Ltd. Company Secretary since 1995.
Chantal Filgate Dip.Fin.Serv.; Dip.Frontline Management;MAMI	Manager Operations Manager Operations of the Credit Union since 2011. Nominated Responsible Officer under AFS Licence. Employed since 1988 in a variety of roles including Assistant to Manager of Operations and Manager Member Services. Member of the Australasian Mutuals Institute Ltd. Company Secretary since 2012.

2. General information

Principal Activities

The principal activities of the Credit Union during the year were the provision of financial services to members. There were no significant changes to the Credit Union's principal activities during the financial year.

3. Business review

Operating Results

The profit after providing for income tax was $185,834 (2015: $287,196).

Review of Operations

The Credit Union recorded a very good profit result overall, in a year that saw interest rates remaining at historically low levels. The local economy continues to be hindered by a subdued level of investment confidence. Tight interest margins continued to put pressure on the organisation to produce a positive return.

Net Interest Income improved with lending growth outpacing the growth in member deposits. Liquidity decreased as excess funds were used to fund the loan book. Investments were predominantly into low risk Term Deposit type products with other Financial Institutions, which produced modest returns. Given the tight market conditions, cost control was again at the forefront, and significant savings were made against budget in the areas of advertising, computer costs and administration. Total Assets increased by 1.5% to $94.8 million (2015: $93.4 million). Member loans had a considerable growth increasing from $68.4 million to $73.3 million. Member deposits grew by 1.6% to $85.2 million.

4. Other items

Significant Changes in State of Affairs

No significant changes in the Company's state of affairs occurred during the financial year.

Environmental regulation

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory

Auditor’s Independence Declaration

The auditor’s independence declaration for the year ended 30 June 2016 has been received and a copy is included on page 8.

Future Developments

The directors anticipate that the new financial year will be a period in which the Credit Union will continue to provide financial services to its members in a manner that will ensure continuing profitability and growth of the Credit Union.

Meetings of Directors

Meetings of directors who held office at any time during the year are listed below.

	Full Board Meetings		Risk Committee		Audit Committee		Renewal / Corporate Governance Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Liz Swain	11	11	3	3			4	4		
Craig Seen (resigned 26.11.15)	4	4	2	1						
Kevin Preece	11	8			3	3	4	4		
Christian Sundstrup	11	10	5	5	3	3				
Maree Tetlow	11	10			2	2	1	1	5	5
Will Homan (resigned 26.8.15)	2	1								
Douglas Burt	11	9	5	5					3	3
Stuart Blom (appointed 26.11.15)	7	7	3	3			3	3		
Elizabeth Skirving (appointed 1.12.15)	7	5			2	2			3	2

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

4. Other items (continued)

Indemnification and Insurance of Directors and Officers

The Company has paid premiums to insure its directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The officers of the Credit Union covered by the insurance policy include the directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of the premium payable under, and the nature of liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors.

Public Prudential Disclosure

In accordance with the APS 330 *Public Disclosure* requirements, the Company is to publicly disclose certain information in respect of:

- details on the composition and features of capital and risk weighted assets; and
- both qualitative disclosure and quantitative disclosures for Senior Managers and material risk-takers.

These disclosures can be viewed on the Company’s website: http://www.heritageisle.com.au/about-us-publications.html

5. Directors' Benefits

Since 30 June 2016, no director has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of directors remuneration as disclosed in Note 24(b) to the financial statements, by reason of a contract made by the Credit Union or a related entity with a director or a firm of which a director is a member or an entity in which a director has a substantial financial interest.

Signed in accordance with a resolution of directors.

E. Swain

Liz Swain
Director

M. Tetlow

Maree Tetlow
Director

Date: 29th September 2016

Auditors Independence Declaration

Crowe Horwath.

Crowe Horwath Tasmania
ABN 55 418 676 841
Member Crowe Horwath International

Audit and Assurance Services

62 Paterson Street
Launceston TAS 7250 Australia
PO Box 1000
Launceston TAS 7250 Australia
Tel 03 6323 1222

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Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of Heritage Isle Credit Union Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

2) Any applicable code of professional conduct in relation to the audit.

Crowe Horwath Tasmania

CROWE HORWATH TASMANIA

DAVID MUNDAY
Partner

Dated at Melbourne this 29th day of September 2016.

Corporate Governance

For the Year Ended 30 June 2016

BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

The Board of Directors has the overall responsibility for the corporate governance of the Credit Union, including its strategic direction, the review of plans, policies and procedures established by the management team and the monitoring of performance against those plans, policies and procedures.

The Board have adopted a corporate governance policy which applies APRA Prudential Standard CPS 510 *Governance*, Practice Guide APG 510, and the ASX Corporate Governance Council's *Principals of Good Corporate Governance* to the circumstances of the Credit Union to achieve best practice corporate governance.

COMPOSITION OF THE BOARD

The Board is comprised of seven non-executive directors of which Liz Swain is the Chair and Maree Tetlow is Vice-Chair. Profiles of the directors are set out in the Directors' Report.

COMMITTEES OF THE BOARD

To assist in the execution of the Board's corporate governance responsibilities the Board has at this stage established four committees, being the Risk Committee, Audit Committee, Corporate Governance Committee and the Remuneration Committee.

Risk Committee

Members of this committee are Chris Sundstrup as Chairman, Stuart Blom, Liz Swain and Douglas Burt. The Risk Committee has the major responsibility for the Credit Union's risk management framework, and the review of key risk policies for Capital, Liquidity and Market risk.

Audit Committee

Members of this committee are Elizabeth Skirving as Chairman, Maree Tetlow, Chris Sundstrup and Kevin Preece. This Committee has the major responsibility of liaising with the external and internal auditors. It also reviews the financial statements, monitors compliance with policies, controls and accounting standards.

Corporate Governance Committee

Members of this committee are Stuart Blom as Chair, Liz Swain and Kevin Preece or such other directors as required by Credit Union policy to fulfil the sub-committee's duties. The Committee assists and makes recommendations to the Board to fulfil its Governance responsibilities in respect of fitness and propriety and the nomination of Directors, as well as focusing on succession planning for Directors and Executive Managers.

Remuneration Committee

Members of this committee are Doug Burt as Chairman, Maree Tetlow and Elizabeth Skirving. This committee assists and makes recommendations to the Board to fulfil its Governance responsibilities relating to the remuneration of Directors and staff.

ETHICAL STANDARDS

The directors acknowledge the need for and continued maintenance of the highest standards of corporate governance practices and ethical conduct by all directors and employees of the Credit Union.

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2016

	Note	2016 $	2015 $
Interest revenue	2	**4,788,306**	**4,988,864**
Interest expense	2	**(1,396,829)**	**(1,736,016)**
Net interest income		**3,391,477**	**3,252,848**
Fees and commissions income	3	**690,384**	**682,358**
Other income	3	**60,840**	**55,318**
Fees and commissions expense		**(553,430)**	**(522,735)**
Impairment expense	9(d)	**(114,707)**	**(41,949)**
Marketing costs		**(79,297)**	**(77,619)**
Employee costs		**(2,014,640)**	**(1,874,278)**
Communications and information technology		**(571,742)**	**(575,243)**
Occupancy costs		**(217,332)**	**(197,801)**
Administrative costs		**(314,677)**	**(310,087)**
Profit before income tax		**276,876**	**390,812**
Income tax expense	5	**(91,042)**	**(103,616)**
Profit for the year after tax		**185,834**	**287,196**
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss:		**-**	**-**
Net gain on revaluation of land and buildings, net of tax		**-**	**11,882**
Total profit and other comprehensive income for the year attributable to members		**185,834**	**299,078**

Statement of Financial Position

As At 30 June 2016

	Note	2016 $	2015 $
ASSETS			
Cash	6	**3,274,138**	**2,958,412**
Trade and other receivables	7	**283,063**	**311,193**
Placements with other financial institutions	8	**15,468,715**	**19,133,517**
Loans and advances	9	**73,269,584**	**68,438,211**
Other investments	11	**168,969**	**168,969**
Prepayments		**106,187**	**106,591**
Property, plant and equipment	10	**1,932,553**	**1,958,430**
Intangible assets	12	**66,249**	**121,963**
Deferred tax assets	15(b)	**246,599**	**222,286**
TOTAL ASSETS		**94,816,057**	**93,419,572**
LIABILITIES			
Deposits from members	13	**85,183,551**	**83,836,598**
Trade and other payables	14	**961,522**	**1,065,561**
Current tax payable	15(a)	**51**	**58,597**
Employee benefits	16	**299,613**	**278,609**
Deferred tax liabilities	15(c)	**199,453**	**194,174**
TOTAL LIABILITIES		**86,644,190**	**85,433,539**
NET ASSETS		**8,171,867**	**7,986,033**
EQUITY			
Reserves	17	**8,171,867**	**7,986,033**
TOTAL EQUITY		**8,171,867**	**7,986,033**

Statement of Changes in Equity

For the Year Ended 30 June 2016

	Retained Earnings $	Asset Revaluation Reserve $	General Reserves $	General Reserve Credit Losses $	Total $
Balance at 1 July 2014	-	1,157,031	6,313,624	216,300	7,686,955
Profit for the year	287,196	-	-	-	287,196
Transfers to and from reserves					
General reserve	(264,383)	-	264,383	-	-
Credit losses reserve	(22,813)	-	-	22,813	-
Other comprehensive income					
Revaluation increment, net of tax	-	11,882	-	-	11,882
Balance at 30 June 2015	-	1,168,913	6,578,007	239,113	7,986,033
Balance at 1 July 2015	-	1,168,913	6,578,007	239,113	7,986,033
Profit for the year	185,834	-	-	-	185,834
Transfers to and from reserves					
General reserve	(111,879)	-	111,879	-	-
Credit losses reserve	(73,955)	-	-	73,955	-
Other comprehensive income					
Revaluation increment, net of tax	-	-	-	-	-
Balance at 30 June 2016	-	1,168,913	6,689,886	313,068	8,171,867

Heritage Isle Credit Union Ltd

Statement of Cash Flows

For the Year Ended 30 June 2016

	Note	2016 $	2015 $
Cash flows from operating activities:			
Interest received		**4,790,012**	**5,007,057**
Interest paid		**(1,437,260)**	**(1,796,533)**
Payments to suppliers and employees		**(3,591,752)**	**(3,487,981)**
Other receipts		**746,250**	**744,513**
Income taxes paid		**(168,622)**	**(158,137)**
	18	**338,628**	**308,919**
Net movement in loans and advances		**(4,937,198)**	**(5,127,050)**
Net movements in deposits		**1,294,381**	**2,837,708**
Net cash provided by operating activities	18	**(3,304,189)**	**(1,980,423)**
Cash flows from investing activities:			
Proceeds from sale of plant and equipment		**-**	**-**
Acquisition of property, plant and equipment		**(43,448)**	**(31,208)**
Acquisition of intangibles		**(1,439)**	**(93,143)**
Net movement in placements with other financial institutions		**3,664,802**	**2,551,462**
Proceeds from other investments		**-**	**-**
Net cash used by investing activities		**3,619,915**	**2,427,111**
Net cash increase/(decrease) in cash and cash equivalents		**315,726**	**446,688**
Cash and cash equivalents at beginning of year	6	**2,958,412**	**2,511,724**
Cash and cash equivalents at end of year	6	**3,274,138**	**2,958,412**

1 Statement of Significant Accounting Policies

Statement of Compliance
The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial statements were authorised for issue by the directors on 29th September 2016.

Heritage Isle Credit Union Ltd ("the Company" or "the Credit Union") is a company limited by shares, incorporated and domiciled in Australia.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

Not-for-profit status
Under AIFRS, there are requirements that apply specifically to not-for-profit entities that are not consistent with International Financial Reporting Standards (IFRS) requirements. The Credit Union has analysed its purpose, objectives and operating philosophy and determined that it does not have profit generation as its prime objective.

The following items have been considered in making this not-for-profit analysis:

- While the Credit Union does aim to make a profit, this is just in order to sustain an appropriate capital adequacy ratio (as discussed at Note 21(b)). The Credit Union's main focus as a mutual organisation is on members;
- The Credit Union is in a unique position, whereby they are a mutual organisation. Members of the Credit Union are the owners of the Credit Union. However, no dividends are able to be paid to members. Alternatively, products and services are delivered at discounted prices to members; and
- If the Credit Union had profit as the prime objective, they would be able to increase profits to the detriment of members and the disadvantage of the local community.

Consequently where appropriate the Credit Union has elected to apply options and exemptions within AIFRS that are applicable to not-for-profit entities.

The following is a summary of the material accounting policies adopted by the Credit in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which fair value basis of accounting has been applied.

(a) Accounting judgements and estimates

The preparation of the financial statements in conformity with Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Areas of the financial statements involving a higher degree of judgement or complexity, or areas where reliance on estimates or assumptions are significant include:

- impairment losses on loans and advances (refer to Note 9);
- ability to realise deferred tax asset balances (refer to Note 15); and
- valuation and assumptions used in determining fair value of land and buildings (refer to Note 10).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial statements are reasonable.

1 Statement of Significant Accounting Policies (continued)

(b) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(c) Revenue

Interest income for all interest earning assets including those at fair value is recognised in the statement of profit or loss and comprehensive income using the effective interest rate method.

Term Loans: loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a borrower's account on the last day of each month.

Overdrafts: loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a borrower's account on the last day of each month.

Non Accrual Loan Interest: while still legally recoverable, interest is not brought to account as income where the Credit Union becomes aware that the loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board. APRA has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, except where lenders' mortgage insurance has been obtained.

Dividends

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Financial services fees

Loan establishment fees, discounts and other fees that are deemed to be an integral part of the effective interest rate are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan or other relevant period. The amounts brought to account are included as part of interest revenue. Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Other fees and commissions are generally recognised on an accrual basis over the period during which the service is provided.

(d) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

1 Statement of Significant Accounting Policies (continued)

(d) Income tax (continued)

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Loans and advances

Recognition and measurement

Loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful.

Loan impairment

Specific provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for doubtful debts is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

Collective provision

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears.

1 Statement of Significant Accounting Policies (continued)

(e) Loans and advances(continued)

General Reserve for Credit Losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from Retained Earnings to ensure there is adequate protection for members against the prospect that some borrowers will experience loan repayment difficulties. The reserve is based on a percentage of risk-weighted credit assets.

Bad debts written off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for doubtful debts if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the statement of profit or loss and other comprehensive income.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction, based on periodic, but at least triennial, valuations by external valuers, less subsequent depreciation for buildings. Properties for which there is no ready market have been shown at directors' valuation.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets including buildings, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use.

The estimated useful lives used for each class of depreciable assets are:

Buildings	40 years
Plant and equipment	4 to 15 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1 Statement of Significant Accounting Policies (continued)

(g) Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as Intangible Assets. Computer software held as intangible assets is to be amortised over the term of the contract with the software supplier. 2016: 2-5 years (2015: 2-5 years).

(h) Impairment of assets

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

(i) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and deposits held at call with banks net of bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(j) Placements with other financial institutions

Term deposits, bank bills and negotiable certificates of deposits are currently guaranteed by the Australian Government up to $250,000 for each investment with an ADI, with the balance unsecured, and all have a carrying amount equal to their purchase price. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

(k) Deposits from members

Members' savings and term investments are quoted at the aggregate amount of money owing to depositors.

Interest on deposits is calculated on either the minimum monthly balance or the daily balance, depending on the account held by the member, and posted to the account periodically, or on maturity of the term deposit. Interest on deposits is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

(l) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Credit Union expects to pay as at reporting date including related on-costs such as workers compensation insurance and payroll tax. Annual leave expected to be taken after 12 months is discounted back to present value using the rates attached to high quality corporate bond rates at the balance date.

1 Statement of Significant Accounting Policies (continued)

(l) Employee benefits (continued)

Long service leave

The Credit Union's obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates and is discounted using the rates attached to high quality corporate bond rates at the balance date which have maturity dates approximating to the terms of the Credit Union's obligations.

Superannuation plans

Contributions to the employee's superannuation funds are recognised as an expense as they are incurred.

(m) Goods and Services Tax (GST)

As a financial institution, the Company is input taxed on all income except income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits ('RITC'), of which 75% of the GST paid is recoverable.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(n) Fair Value Measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

1 Statement of Significant Accounting Policies (continued)

(n) Fair Value Measurement (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Fair value measurement hierarchy
The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

(o) New accounting standards and interpretations

The following standards have been identified as ones which may impact the Credit Union in the period of initial application. They are available for early adoption, but have not been applied by the Credit Union in these financial statements:

AASB 9 *Financial Instruments* replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted. The Credit Union does not expect the changes to AASB 9 to have a material effect on the financial statements other than the move to an expected loss model for impairment which may result in increases to provisions.

AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces most of the existing standards and interpretations relating to revenue recognition including AASB 118 *Revenue*. The standard shifts the focus from the transaction level to a contract-based approach. Recognition is determined based on what the customer expects to be entitled to, while measurement encompasses estimation by the Credit Union of the amount expected to be entitled for performing under the contract. It is effective for annual reporting periods commencing 1st January 2018, with early adoption permitted. The Credit Union does not expect the changes to revenue recognition to have a material effect on the financial statements when AASB 15 is first adopted.

1 Statement of Significant Accounting Policies (continued)

(o) New accounting standards and interpretations (continued)

AASB 16 *Leases* replaces AASB 117 *Leases* and some lease related interpretations and is applicable for reporting periods beginning on or after 1st January 2019. AASB 16 requires all leases to be accounted for 'on-balance sheet' by lessees, other than short term and low value asset leases, provides new guidance on the application of the definition of lease and on sale and lease back accounting and requires new and different disclosures about leases. The Credit Union is yet to undertake a detailed assessment of AASB 16 however, based on preliminary assessments, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted since existing operating leases are minimal and expected to remain so. The Credit Union's preliminary assessment does indicate that the likely impact on the transactions and balances recognised will be an increase in property, plant and equipment and a corresponding increase in liabilities.

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Notes to the Financial Statements

For the Year Ended 30 June 2016

2 Interest revenue and expense

	2016	2015
	$	$
Interest revenue		
Financial assets at amortised cost		
Loans and advances	4,222,626	4,233,876
Placements with other financial institutions	462,837	641,290
Loan origination fees	102,843	113,698
Total interest revenue	4,788,306	4,988,864
Interest expense		
Financial liabilities at amortised cost		
Deposits	1,396,299	1,735,660
Short term borrowings	530	356
Total interest expense	1,396,829	1,736,016
Net interest income	3,391,477	3,252,848

3 Non-interest revenue

	2016	2015
Fees and commissions		
Transaction fees	355,267	411,868
Loan fees (excluding loan origination fees)	121,411	35,944
Insurance and other commissions	213,706	234,546
	690,384	682,358
Other income		
Rental income	6,000	17,147
Dividends	26,794	26,568
Sundry Income	22,757	-
Bad debts recovered	5,289	11,603
	60,840	55,318
Total non-interest income	751,224	737,676

Notes to the Financial Statements

For the Year Ended 30 June 2016

4 Specific expenses

	2016 $	2015 $
Depreciation and amortisation		
Plant and equipment	39,508	41,089
Owner-occupied buildings	28,771	28,544
Computer software	48,653	39,167
	116,932	108,800
Rental expense on operating leases		
Minimum lease payments	24,310	23,916
Regulatory costs		
APRA supervision levies	4,449	4,141
Loss on disposal of property, plant and equipment and intangibles	9,546	-

5 Income tax expense

The components of tax expense comprise:

Current year tax payable	110,098	122,479
Adjustments for prior years	(22)	-
Originating and reversing temporary differences	(19,034)	(18,863)
	91,042	103,616

Reconciliation of income tax expense

The prima facie tax payable on profit before income tax at 30% (2015: 30%) is reconciled to income tax expense in the accounts as follows:

- Prima facie tax payable on profit before income tax	83,063	117,244
Tax effect of:		
- rebateable fully franked dividends	(8,038)	(7,971)
- prior year adjustment	(22)	-
- other items	16,039	(5,657)
	91,042	103,616

6 Cash

Cash on hand	636,773	778,240
Cash at bank	737,365	580,172
Deposits at call	1,900,000	1,600,000
	3,274,138	2,958,412

	2016	2015
	$	$

7 Trade and other receivables

	2016 $	2015 $
Trade receivables	18,255	16,103
GST receivable	14,389	11,567
Accrued interest receivable	55,995	66,583
Member transactions not yet processed	194,424	216,940
	283,063	311,193

8 Placements with other financial institutions

	2016 $	2015 $
Term deposits	7,500,000	5,700,000
Negotiable certificate of deposits	4,968,715	13,433,517
Floating rate notes	3,000,000	-
	15,468,715	19,133,517

(a) Credit quality

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit rating grades in the APRA prudential practice guide APG 112. The credit quality assessment scale within this practice guide has been complied with.

The exposure values associated with each credit rating level, based on Standard & Poor's and Moody's ratings, are as follows:

	2016 $	2015 $
ADI's rates AA- and higher	3,000,000	-
ADI's rates A-1+ / A-1	3,000,000	5,700,000
ADI's rated A-2 / P-2	8,468,715	13,433,517
ADI's unrated	1,000,000	-
Total	15,468,715	19,133,517

9 Loans and advances

	2016 $	2015 $
Overdrafts	509,278	614,411
Personal loans	8,549,960	6,781,255
Commercial loans	1,216,637	1,603,457
Residential loans	63,313,406	59,695,819
	73,589,281	68,694,942
Provision for impairment	(126,982)	(55,134)
Deferred loan fees	(192,715)	(201,597)
	73,269,584	68,438,211

9 Loans and advances (continued)

(a) Concentration of risk

Exposure to groupings of individual loans which concentrate risk within particular geographical segments are as follows:

	2016 $	2015 $
Tasmania	71,540,169	66,524,081
Other Australian states	2,049,112	2,170,861
	73,589,281	68,694,942

The Credit Union does not have any significant exposure to any particular industry sectors or other groupings of members, other than that, loans are predominantly for residential housing purposes.

(b) Credit quality of loans and advances

A majority of the portfolio of the loan book is secured by residential property in Tasmania. Therefore the Credit Union is exposed to risks in the reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans is primarily reduced by the nature and quality of the security obtained.

It is not practical to value all collateral as at the balance date due to the variety of assets and their nature and condition. A breakdown of the quality of the mortgage security on a portfolio basis is as follows:

Secured by mortgage over residential property		
LVR less than 80%	54,068,191	50,060,083
LVR more than 80% but mortgage insured	5,496,605	3,993,497
LVR more than 80% and not mortgage insured	6,261,691	6,468,773
	65,826,487	60,522,353
Secured by mortgage over non residential assets		
Non-residential property	3,320,078	3,948,425
Wholly unsecured		
Personal loans	4,442,716	4,494,164
	73,589,281	68,964,942

(c) Provision for impairment

Collective provision	110,942	46,134
Specific provision	16,040	9,000
	126,982	55,134

9 Loans and advances (continued)

(c) Provision for impairment (continued)

Provision for impairment – collective provision	2016 $	2015 $
Opening balance	46,134	33,934
Doubtful debts provided for/(reversal of doubtful debts) during the year	78,731	38,585
Bad debts written off	(13,923)	(26,385)
Closing balance	110,942	46,134

Provision for impairment – specific provision

Opening balance	9,000	43,150
Doubtful debts provided for/(reversal of doubtful debts) during the year	17,040	1,550
Bad debts written off	(10,000)	(35,700)
Closing balance	16,040	9,000

(d) Impairment expense

Doubtful debts provided for during the year	95,771	40,135
Bad debts recognised directly as expense	18,936	1,814
	114,707	41,949

(e) Past due and impaired loans

Past due loans are those where repayments by the borrower have not been maintained in accordance with the loan agreement. Past due loans are not considered impaired where they are well secured, generally over residential property with a current valuation or where lenders mortgage insurance has been obtained, and as a result, it is expected that the Credit Union will not suffer any loss in the event of continuing default by the borrower. Impaired loans are generally not secured against residential property, although other forms of collateral may have been obtained as security.

(f) Renegotiated loans

Loans where the original terms of the loan have been varied by agreement with the borrower	360,014	129,057

(g) Assets acquired through enforcement of security

Real estate acquired through enforcement of security	63,462	-
Specific provision for impairment	(63,462)	-
Balance at the end of the financial year	-	-
Net fair value of real estate assets acquired through the enforcement of security during the financial period	-	-
Net fair value of other assets acquired through the enforcement of security during the financial period	-	-

9 Loans and advances (continued)

(h) Ageing of impaired loans

2016	Less than 3 months past due *	3 - 6 months past due	6 - 12 months past due	More than 12 months past due	Gross loan balance	Impairment provision	Net carrying value
Impaired loans	$	$	$	$	$	$	$
Personal loans	18,581	5,724	32,249	63,462	120,016	(101,303)	18,713
Residential loans	-	-	133,449	-	133,449	(24,689)	108,760
Commercial facilities	-	-	-	-	-	-	-
Overdrawn savings accounts	3,504	428	368	-	4,300	(990)	3,310
	22,085	6,152	166,066	63,462	257,765	(126,982)	130,783
Past due not impaired	1,918,061	-	-	-	1,918,061	-	1,918,061
Total	1,940,146	6,152	166,066	63,462	2,175,826	(126,982)	2,048,844

***** Less than 3 months past due includes two Impaired Loans that have been recognised as Impaired prior to past due status.

2015	Less than 3 months past due	3 - 6 months past due	6 - 12 months past due	More than 12 months past due	Gross loan balance	Impairment provision	Net carrying value
Impaired loans	$	$	$	$	$	$	$
Personal loans	23,363	78,522	6,850	8,574	117,309	(53,092)	64,217
Residential Loans	96,169	-	-	-	96,169	-	96,169
Commercial facilities	-	-	-	-	-	-	-
Overdrawn savings accounts	6,684	1,164	305	185	8,338	(2,042)	6,296
	126,216	79,686	7,155	8,759	221,816	(55,134)	166,682
Past due not impaired	1,843,623	56,268	-	-	1,899,890	-	1,899,890
Total	1,969,839	135,954	7,155	8,759	2,121,706	(55,134)	2,066,572

10 Property, plant and equipment

	2016 $	2015 $
LAND AND BUILDINGS		
Freehold land		
At fair value	710,000	710,000
Total freehold land	710,000	710,000
Buildings		
At fair value	1,157,782	1,130,000
Accumulated depreciation	(28,771)	-
Total buildings	1,129,011	1,130,000
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	567,637	612,490
Accumulated depreciation	(474,095)	(494,060)
Total plant and equipment	93,542	118,430
Total property, plant and equipment	1,932,553	1,958,430

10 Property, plant and equipment (continued)

Valuation of land and buildings

Valuations of land and buildings were conducted by Mr Murray A Bugg, Dip.Val., A.A.P.I. Independent Certified Practising Valuer and dated 27 May 2015 and applied effectively from 30 June 2015. Valuations have been based on the assessment of their fair value per the requirements of AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*; and have been made in accordance with a policy of regularly revaluing land and buildings every three years. In the opinion of Directors, there have been no significant changes to fair value since the previous independent valuation.

The basis of determining fair value of land and buildings is the amounts for which assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market or similar properties in the same location and condition, and based on highest and best use.

Refer to Note 27 for further information on fair value measurement.

Movements in carrying amounts

	Freehold land $	Buildings $	Plant & equipment $	Total $
2016				
Balance at beginning of year	**710,000**	**1,130,000**	**118,430**	**1,958,430**
Additions	**-**	**27,782**	**15,666**	**43,448**
Disposals	**-**	**-**	**(1,046)**	**(1,046)**
Depreciation expense	**-**	**(28,771)**	**(39,508)**	**(68,279)**
Carrying amount at end of year	**710,000**	**1,129,011**	**93,542**	**1,932,553**
2015				
Balance at beginning of year	**750,000**	**1,085,713**	**128,311**	**1,964,024**
Additions	**-**	**-**	**31,208**	**31,208**
Disposals	**-**	**-**	**-**	**-**
Depreciation expense	**-**	**(28,544)**	**(41,089)**	**(69,633)**
Revaluation increase recognised in equity	**(40,000)**	**72,831**	**-**	**32,831**
Carrying amount at end of year	**710,000**	**1,130,000**	**118,430**	**1,958,430**

11 Other investments

	2016 $	2015 $
CUSCAL Ltd		
Commercial shares	**163,380**	**163,380**
	163,380	**163,380**
TransAction Solutions Pty Ltd		
Class A shares	**5,589**	**5,589**
	168,969	**168,969**

(a) Cuscal Limited

The shareholding in Cuscal Limited is measured at cost as its fair value could not be measured reliably. The company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The financial statements of Cuscal Limited record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal Limited, any fair value determination of these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union is not intending to dispose of these shares.

(b) TransAction Solutions Pty Ltd

The shareholding in TransAction Solutions Pty Ltd is measured at cost as its fair value could not be measured reliably.

The financial statements of TransAction Solutions Pty Ltd record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of TransAction Solutions Pty Ltd, any fair value determination of these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Company is not intending to dispose of these shares.

12 Intangible assets

	2016 $	2015 $
Computer software		
At cost	396,180	403,240
Accumulated amortisation	(329,931)	(281,277)
	66,249	121,963

Reconciliations

Reconciliations of the carrying amounts for each class of intangible assets are set out below:

Computer software		
Balance at the beginning of the year	121,963	67,987
Acquisitions	1,439	93,143
Disposals	(8,500)	-
Amortisation expense	(48,653)	(39,167)
Balance at end of year	66,249	121,963

13 Deposits from members

Call deposits	44,897,875	41,791,231
Term deposits	40,226,928	41,981,747
Redeemable members shares	58,748	63,620
	85,183,551	83,836,598

(a) Concentration of deposits

Tasmanian residents	82,394,125	81,241,674
Other	2,789,426	2,594,924
	85,183,551	83,836,598

The deposits above do not include any deposits from individual members representing 10% or more of total liabilities.

14 Trade and other payables

Member transaction not yet processed	416,198	491,286
Trade payables & accrued expenses	224,786	213,306
Accrued interest - member deposits	320,538	360,969
	961,522	1,065,561

15 Tax

	2016	2015
	$	$

(a) Current Tax Payable

	2016 $	2015 $
Current year tax payable	**51**	**58,597**
	51	**58,597**

(b) Deferred Tax Asset

NON-CURRENT

	2016 $	2015 $
Deferred tax asset comprises:		
Provision for impairment	**38,095**	**16,540**
Deferred loan origination fees	**57,814**	**60,479**
Accrued expenses not deductible	**26,932**	**27,810**
Employee entitlement provisions	**89,884**	**83,583**
Prior year capital losses	**33,874**	**33,874**
	246,599	**222,286**

(c) Deferred Tax Liability

NON-CURRENT

	2016 $	2015 $
Deferred tax liability comprises:		
Property, plant & equipment	**192,629**	**189,195**
Other assets	**6,824**	**4,979**
	199,453	**194,174**

16 Employee benefits

	2016 $	2015 $
Current		
Annual leave	126,691	120,743
Long service leave	117,494	124,312
Non current		
Long service leave	55,428	33,554
	299,613	278,609

17 Reserves

(a) Asset revaluation reserve

The asset revaluation reserve records revaluations of non current assets.

(b) General reserve

The general reserve records funds primarily consisting of prior years' retained earnings, and is a predominant component of Capital which is required to be held under APRA Prudential Standard APS 110 *Capital Adequacy*.

(c) Credit losses reserve

This reserve records amounts set aside as a general provision for credit losses as required by APRA Prudential Standard APS 220 *Credit Quality*.

(d) Member share redemption reserve

The Company has, in accordance with ASIC Compliance Note 2001.84, complied with Section 254K of the Corporations Act 2001 via the creation of a member share redemption reserve. At the conclusion of each financial year the Company establishes the number of members that resigned during the financial year and transfers the equivalent monetary amount to a member share redemption reserve from retained profits as the law requires that the redemption of the shares be made out of profits. The balance represents the amount of redeemable preference shares redeemed by the Company since 1 July 1999.

The balance at 30 June 2016 is $68,184 (2015: $60,864). The 2016 allocation amounts to $7,320 (2015: $2,916). The general reserve includes the amounts allocated for the member share redemption reserve.

18 Cash flow information

(a) Operating cash flows reconciliation

Net profit after income tax is reconciled to net cash flows from operations as follows:

	2016	2015
	$	$
Net profit	185,834	287,196
Non-cash flows in profit from ordinary activities		
Depreciation	68,279	69,633
Computer software and website	48,653	39,167
Loss on disposal of assets	9,546	-
Impairment expense	114,707	41,949
Changes in assets and liabilities		
Trade and other receivables	5,614	36,112
Prepayments	404	(20,895)
Deferred loan fees	(8,882)	(11,082)
Current tax payable	(58,546)	(35,659)
Deferred tax	(19,034)	(18,862)
Trade and other payables	(28,951)	(75,383)
Employee benefits	21,004	(3,257)
	338,628	308,919
Add/(deduct) non revenue operations		
(Increase)/ decrease in loans and advances	(4,937,198)	(5,127,050)
Increase/(decrease) in deposits	1,294,381	2,837,708
Net cash flow from operations	(3,304,189)	(1,980,423)

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

(i) member deposits to and withdrawals from deposit accounts;
(ii) borrowings and repayments on loans, advances and other receivables; and
(iii) Investment securities, including shares in special service providers.

(c) Credit Standby Arrangements

An undrawn overdraft facility of $500,000 is available through CUSCAL Ltd. This facility is secured by way of a fixed and floating charge over the assets and undertakings of the Credit Union. At balance date, no amount of the facility had been drawn down.

19 Segment information

The Credit Union operates within the one business and geographical segment, being the finance industry in Australia, primarily within the State of Tasmania.

20 Contingent liabilities and contingent assets

The Credit Union has elected to participate in the Credit Union Financial Support System. The system provides participating credit unions with access to financial support once all other sources of liquidity are exhausted. Contributions which may be required to be made by the Credit Union in supporting other credit unions are limited to 3.2% of the Credit Union's total assets. Further details of the arrangement are disclosed at Note 21 (d) and Note 22 (b).

21 Financial risk management

(a) Risk management objectives and policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Credit Union’s activities. The Credit Union through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Credit Union’s risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments.

(b) Capital management

Capital is the cornerstone of an ADI’s financial strength.

The primary role of capital is to:
- Maintain a cushion against loss to enable the Credit Union to trade through difficult times.
- Absorb unanticipated losses from activities.
- Ensure safety of deposits thereby maintaining public confidence in the financial soundness and stability of the Credit Union.

21 Financial risk management (continued)

(b) Capital management (continued)

The Credit Union is bound by the prudential standards as set by the prudential regulator, the Australian Prudential Regulation Authority (APRA). Under the standards governing capital, ADI's are required to hold minimum capital equivalent to 8% of its risk weighted assets as measured under the relevant prudential standards. Prudential Standards also require the Credit Union to have an internal capital adequacy assessment process (ICAAP) which determines an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Credit Union is exposed from its activities.

The Credit Union has to date sourced capital from profits generated from the business, general reserves, asset revaluation reserve and general reserve for credit losses. In normal operating conditions, the Credit Union will endeavour to manage its capital ratio through the use of initiatives such as:

- Improving the Credit Union's profitability;
- Managing the Credit Union's asset portfolio to ensure that the Credit Union is not over exposed in higher risk weighted assets;
- Prudent management of the Credit Union's interest rates to ensure that products are priced adequately to reflect the various levels of risk associated with the product;
- Ensure that the Credit Union is adequately protected from market risk;
- Ensure that other risks facing the Credit Union are effectively monitored and managed; and
- Managing the rate of growth.

The Credit Union prepares an annual budget together with a 3 Year Financial Plan. The Plan includes planned growth, projected profits and financial projections for the next three years and predicts capital adequacy for each of these periods.

The annual budget contains financial forecasts which provide management and the Board with an indication of the financial estimates for the coming 12 months of the Credit Union's strategies and operations. Included in the financial statements is a forecast of the Credit Union's capital adequacy ratio. Management review the budgeted profit levels to ensure that the Credit Union achieves a return on assets which keeps capital adequacy above internal limits.

On a monthly basis, management reviews actual accounting results against budgeted results. Management will also review the capital adequacy ratio on a monthly basis. Such results are provided to the Board each month.

Public disclosure of capital

In accordance with the APS 330 *Public Disclosure* requirements, the Credit Union is required to include details on the composition and features of capital and risk weighted assets in the Regulatory Disclosure section on their website.

21 Financial risk management (continued)

(b) Capital management (continued)

The Credit Union's capital contains tier 1 and tier 2 capital. Tier 1 capital can contain both common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital comprises the highest quality components of capital that fully satisfy all of the following characteristics:

a) provide a permanent and unrestricted commitment of funds;
b) are feely available to absorb losses;
c) do not impose any unavoidable servicing charge against earnings; and
d) rank behind the claims of depositors and other creditors in the event of winding-up of the issuer.

Common equity tier 1 capital consists of retained earnings and the asset revaluation reserve. Deductions from tier 1 capital are made for intangible assets, certain capitalised expenses, deferred tax assets and equity investments in other ADI's.

Tier 2 capital includes the reserve for credit losses and tier 2 capital instruments including subordinated debt. Tier 2 capital instruments combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption features of equity.

	2016	2015
	$	$
Tier 1		
General reserve (including current year earnings)	6,697,866	6,578,007
Asset revaluation reserve	1,168,913	1,168,913
Less prescribed deductions		
Deferred tax	(53,303)	(28,112)
Intangible assets, net	(66,249)	(121,963)
Equity investments	(168,969)	(168,969)
	7,578,258	7,427,876
Tier 2		
Credit assets impairment reserve	313,068	239,113
	313,068	239,113
Adjusted prudential capital base	7,891,326	7,666,989
Risk Profile		
Credit Risk	41,742,539	39,567,393
Operational Risk	5,555,166	5,452,653
Total risk weighted assets	47,297,705	45,020,046

Capital Ratio

	2016	2015
The ratio of capital to risk weighted assets at the end of the financial year was:	16.7%	17.0%

21 Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Credit Union is primarily exposed to interest rate risk arising from changes in market interest rate due to mismatches between repricing terms of financial assets and liabilities. Financial instruments held by the Credit Union do not give rise to any direct exposures to currency or equity price risk.

The Credit Union's policy is to manage its finance costs using a mix of fixed and variable rate debt. Management periodically reviews its interest rate exposure and consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates. The interest rate risk is managed by:

- Continuously monitoring the "gap" between the yield on loans and investments and the cost of funds.
- Projecting the interest spread forward to future periods.
- Amending interest rates on loans and/or deposits to ensure that an appropriate spread is maintained.

This continuous monitoring and adjustment of physical interest rates obviates the need to use interest rate derivatives to synthetically manage the movement in rates.

The net interest gap between assets and liabilities is monitored to identify any large exposures to interest rate movements. Calculations completed at 30 June 2016 identified that the value at risk for a 1% movement in interest rates to be 1.5% (2015: 1.7%) of capital.

(d) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a borrower, customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's receivables from customers and investment securities.

Credit risk - loans

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;

21 Financial risk management (continued)

(d) Credit risk (continued)

- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

Credit risk - liquid investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration in one entity. The Board's policy is to maintain counterparty limits with Australian banks to a maximum of 50% of capital, and with CUSCAL Ltd to a maximum of 250% of capital, which is an APRA approved increase to the Credit Union's large exposure limit.

Refer to Note 8(a) with regards to credit quality of placements with other financial institutions.

Maximum exposure to credit risk

The Credit Union's maximum exposure to credit risk, including both on balance sheet and off balance sheet exposures is:

	2016 $	2015 $
On balance sheet exposures		
Loans and receivables (on gross basis)	73,269,584	68,964,942
Placements with other financial institutions	15,468,715	19,133,517
Trade and other receivables	238,063	311,193
	88,976,362	88,409,652
Off balance sheet exposures		
Loans approved not yet funded	1,770,116	1,394,108
Undrawn overdraft and revolving credit facilities	994,609	1,155,041
Redraw facilities on term loans	4,525,236	4,203,942
Guarantees	1,800	1,800
Credit Union Financial Support System	3,024,455	2,981,345
	10,316,216	9,736,236
Total exposures	99,292,578	98,145,888

21 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet its financial obligations as they fall due. The Credit Union’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union’s reputation.

The Credit Union manages liquidity risk by:

- continuously monitoring actual daily cash flows and longer term forecast cash flows;
- monitoring the maturity profiles for financial assets and liabilities; and
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;

The Credit Union is required to maintain at least 9% of total adjusted liabilities as minimum liquidity holdings (MLH) capable of being converted to cash within 48 hours under the APRA prudential standards. The Credit Union has an Austraclear account that will allow it to liquidate approved securities via the Reserve Bank, should the need arise. A test liquidation scenario was performed to provide assurance to APRA that this facility could meet the 48 hour liquidation requirement. The Credit Union’s policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits and available borrowing facilities.

The Credit Union's MLH ratio at 30 June 2016 was 14.2% (2015: 20.2%).

The Credit Union is also able to invest in other investment products such as Term Deposits with other financial institutions. Some of these investments fall outside the prudential definition of minimum liquidity holdings. However these investments do contribute to the overall liquidity position of the Credit Union.

The Credit Union's total liquidity ratio at 30 June 2016 was 20.2% (2015: 24.3%).

The following table details the Credit Union's remaining contractual maturity for its non derivative financial instruments. Contractual cash flows are based on the undiscounted total payment, including both principal and interest, on the earliest possible date on which the Credit Union may be required to pay.

21 Financial risk management (continued)

(f) Maturity analysis of financial instruments

Monetary assets and liabilities have differing maturity profiles depending on the contractual terms, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly, these values will not agree to the carrying amounts of the Statement of Financial Position

2016	Carrying amount $	Contractual cash flows $	Within 1 month $	1 - 3 months $	3 - 12 months $	1 - 5 years $	Later than 5 years $	No maturity specified $
Financial Assets								
Cash	**3,274,138**	**3,274,138**	**3,274,138**	**-**	**-**	**-**	**-**	**-**
Trade and other receivables	**227,068**	**227,068**	**227,068**	**-**	**-**	**-**	**-**	**-**
Placements with other financial institutions	**15,524,710**	**15,942,329**	**5,534,876**	**7,030,438**	**72,881**	**3,304,134**	**-**	**-**
Loans and advances	**73,269,584**	**115,548,233**	**778,469**	**1,480,934**	**6,369,274**	**28,334,057**	**78,076,221**	**509,278**
Other investments	**168,969**	**168,969**	**-**	**-**	**-**	**-**	**-**	**168,969**
	92,464,469	**135,160,737**	**9,814,551**	**8,511,372**	**6,442,155**	**31,638,191**	**78,076,221**	**678,247**
Financial Liabilities								
Trade and other payables	**640,984**	**640,984**	**640,984**	**-**	**-**	**-**	**-**	**-**
Call deposits (includes accrued interest)	**44,901,315**	**44,901,315**	**-**	**-**	**-**	**-**	**-**	**44,901,315**
Term deposits (includes accrued interest)	**40,544,026**	**40,659,892**	**5,974,286**	**5,532,052**	**27,642,462**	**1,511,092**	**-**	**-**
Redeemable members shares	**58,748**	**58,748**	**-**	**-**	**-**	**-**	**-**	**58,748**
	86,145,073	**86,260,939**	**6,615,270**	**5,532,052**	**27,642,462**	**1,511,092**	**-**	**44,960,063**

21 Financial risk management (continued)

(f) Maturity analysis of financial instruments (continued)

2015	Carrying amount $	Contractual cash flows $	Within 1 month $	1 - 3 months $	3 - 12 months $	1 - 5 years $	Later than 5 years $	No maturity specified $
Financial Assets								
Cash	**2,958,412**	**2,958,412**	**2,958,412**	**-**	**-**	**-**	**-**	**-**
Trade and other receivables	**244,610**	**244,610**	**244,610**	**-**	**-**	**-**	**-**	**-**
Placements with other financial institutions	**19,200,099**	**19,250,193**	**8,528,081**	**10,722,112**	**-**	**-**	**-**	**-**
Loans and advances	**68,438,211**	**106,245,002**	**747,522**	**1,484,631**	**6,393,578**	**28,086,004**	**68,918,856**	**614,411**
Other investments	**168,969**	**168,969**	**-**	**-**	**-**	**-**	**-**	**168,969**
	91,010,301	**128,867,186**	**12,478,625**	**12,206,743**	**6,393,578**	**28,086,004**	**68,918,856**	**783,380**
Financial Liabilities								
Trade and other payables	**704,592**	**704,592**	**704,592**	**-**	**-**	**-**	**-**	**-**
Call deposits (includes accrued interest)	**41,794,689**	**41,794,689**	**-**	**-**	**-**	**-**	**-**	**41,794,689**
Term deposits (includes accrued interest)	**42,339,258**	**42,483,276**	**6,096,931**	**5,290,982**	**30,089,654**	**1,005,709**	**-**	**-**
Redeemable members shares	**63,620**	**63,620**	**-**	**-**	**-**	**-**	**-**	**63,620**
	84,902,159	**85,046,177**	**6,801,523**	**5,290,982**	**30,089,654**	**1,005,709**	**-**	**41,858,309**

21 Financial risk management (continued)

(g) Interest rate risk

The Credit Union's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities recognised in the balance date are as follows. The time bandings reflect the earlier of the next contractual repricing date or the maturity date of the asset or liability.

		Fixed interest rate repricing in:					
2016	**Floating rate $**	**1 year or less $**	**Between 1 and 5 years $**	**Later than 5 years $**	**Non-interest bearing $**	**Carrying amount $**	**Weighted average effective interest rate**
Financial Assets							
Cash	2,637,365	-	-	-	636,773	3,274,138	0.98%
Trade and other receivables	-	-	-	-	227,068	227,068	N/A
Placements with other financial institutions	3,018,454	12,506,256	-	-	-	15,524,710	2.69%
Loans and advances	73,269,584	-	-	-	-	73,269,584	5.82%
Other investments	-	-	-	-	168,969	168,969	N/A
	78,925,403	12,506,256	-	-	1,032,810	92,464,469	
Financial Liabilities							
Trade and other payables	-	-	-	-	640,984	640,984	N/A
Call deposits (includes accrued interest)	44,901,315	-	-	-	-	44,901,315	0.37%
Term deposits (includes accrued interest)	-	39,029,532	1,514,494	-		40,544,026	2.88%
Redeemable members shares	-	-	-	-	58,748	58,748	N/A
	44,901,315	39,029,532	1,514,494		699,732	86,145,073	

21 Financial risk management (continued)

(g) Interest rate risk (continued)

		Fixed interest rate repricing in:					
2015	**Floating rate $**	**1 year or less $**	**Between 1 and 5 years $**	**Later than 5 years $**	**Non-interest bearing $**	**Carrying amount $**	**Weighted average effective interest rate**
Financial Assets							
Cash	2,180,172	-	-	-	778,240	2,958,412	1.05%
Trade and other receivables	-	-	-	-	244,610	244,610	N/A
Placements with other financial institutions	-	19,200,099	-	-	-	19,200,099	2.48%
Loans and advances	68,438,211	-	-	-	-	68,438,211	6.04%
Other investments	-	-	-	-	168,969	168,969	N/A
	70,618,383	19,200,099	-	-	1,191,819	91,010,301	
Financial Liabilities							
Trade and other payables	-	-	-	-	704,592	704,592	N/A
Call deposits (includes accrued interest)	41,794,689	-	-	-	-	41,794,689	0.45%
Term deposits (includes accrued interest)	-	41,323,620	1,015,638	-		42,339,258	3.27%
Redeemable members shares	-	-	-	-	63,620	63,620	N/A
	41,794,689	41,323,620	1,015,638		768,212	84,902,159	

21 Financial risk management (continued)

(h) Net fair value

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of the Credit Union on the basis they are held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The Credit Union has assessed that at balance date, the carrying amount of all financial instruments approximates fair value. The description of the valuation techniques and assumptions are detailed below:

- **Cash and liquid assets due from other financial institutions:** The carrying amount approximates fair value because 80% of it has a short-term to maturity or is receivable on demand. The remainder is made up of longer term floating rate notes whose returns reprice every 3 months in line with movements in BBSW.

- **Loans and advances:** All of the Credit Union's loans are variable rate loans. Impaired loans represent only 0.35% of the loan balance, so their fair value impact is considered immaterial. Therefore the carrying amount of all loans, including impaired, is considered to approximate fair value.

- **Investments/securities:** For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

- **Deposits and short-term borrowings:** The carrying amount approximates fair value because of their short-term to maturity and they are payable on request, subject to an interest penalty. The maximum term for fixed term deposits is 2 years. The Credit Union has assessed its own risk in regards to fair value of deposits, and has assessed that no material valuation adjustment is required based on the capital management system utilised as outlined at Note 21(b).

- **Long-term borrowings:** The Credit Union does not have any long term borrowings.

- **Other financial liabilities:** This includes interest payable and trade payables for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

- Other assets and other liabilities approximate their carrying value.

22 Financial commitments

(a) Credit commitments

The following represent commitments to extend credit and are agreements to lend to a member as long as there is no violation of any condition in the contract.

	2016	2015
	$	$
Loans approved not yet funded	1,770,116	1,394,108
Undrawn overdraft facilities	994,609	1,155,041
Funds available on redraw facilities on term loans	4,525,236	4,203,942
Guarantees	1,800	1,800
	7,291,761	6,754,891

(b) Other Commitments

As described in Note 20, the Credit Union has elected to participate in the Credit Union Financial Support System. The maximum exposure for the Credit Union under this scheme is detailed at Note 21(d).

(c) Capital Expenditure Commitments

Capital expenditure commitments contracted for purchase of

	2016	2015
	$	$
Property, plant & equipment (not later than 1 year)	-	27,153
Intangibles (not later than 1 year)	15,348	7,500
	15,348	34,653

(d) Operating Lease Commitments

	2016	2015
	$	$
Payable – minimum lease payments		
- within 12 months	25,037	24,513
- between 12 months and 2 years	10,693	25,126
- between 2 years and 5 years	-	10,731
	35,730	60,370

22 Financial commitments (continued)

(e) Operating Lease Receivables

Operating lease receivables relate to use of the Credit Union's available office capacity in some of its branch facilities

	2016	2015
	$	$
Receivable – aggregated lease receipts		
- within 12 months	**4,120**	**4,000**
- between 12 months and 2 years	**-**	**3,120**
	4,120	**7,120**

23 Securitisation

On the 1st April, 2016 the Credit Union ceased its arrangement with Integris Securitisation Services Pty Limited who were acting as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union therefore no longer manages any securitised loans as at 30th June 2016 (2015: $44,934).

24 Related party disclosures

(a) Names of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union. Key management personnel comprise the Directors of the Credit Union and members of the executive management listed below, who are responsible for the day to day financial and operational management of the Credit Union.

Craig Seen	Resigned 26 November 2015
Kevin Preece	
Stuart Blom	Appointed 26 November 2015
Will Homan	Resigned 26 August 2015
Chris Sundstrup	
Maree Tetlow	
Elizabeth Swain	
Elizabeth Skirving	Appointed 01 December 2015
Doug Burt	

Executives

Annette Griffin	Chief Executive Officer
Chantal Filgate	Manager Operations
Shane Sheppard	Chief Financial Officer
Andrew Moir	Risk and Compliance Specialist
Reg Elphinstone	Loans Manager

(b) Key management personnel compensation

The aggregate compensation of key management personnel during the year comprising amounts paid, payable or provided for was as follows:

	2016 $	2015 $
Short term benefits	**582,661**	**503,596**
Post employment benefits	**91,986**	**53,864**
Other long term benefits	**9,606**	**9,322**
	684,253	**566,782**

Public disclosure of remuneration

In accordance with the APS 330 *Public Disclosure* requirements, the Credit Union is required to include both qualitative disclosure and quantitative disclosures for senior managers and material risk-takers in the Regulatory Disclosure section on their website.

24 Related party disclosures (continued)

(c) Loans to key management personnel and other related parties

The Credit Union has provided loans and overdrafts to a number of key management personnel. The aggregate amount of transactions in relation to these loans are:

	2016	2015
	$	$
Loans advanced during the year	**404,350**	280,365
Interest revenue recognised	**28,302**	32,593
Loan repayments received during the year	**284,453**	114,380
Balance of loans and overdrafts outstanding at year end *	**728,985**	588,145

* For the purposes of this disclosure, the balance reported only includes the related parties of the Credit Union as at balance date.

The Credit Union's policy for lending to Directors is that all loans are approved on the same terms and conditions which applied to members for each class of loan. Key management personnel who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits, which are subject to Fringe Benefits Tax are included in the key management personnel compensation disclosure above. There are no loans which are impaired in relation to the loan balances with Director's or other key management personnel.

There are no benefits or concessional terms and conditions applicable to close family members of key management personnel, except in the case where joint accounts are held. There are no loans with close family members of key management personnel which are impaired.

(d) Deposits from key management personnel and other related parties

The Credit Union holds deposits from key management personnel and other related parties. All transactions have been entered into on the same terms and conditions as those available to other members.

	2016	2015
	$	$
Interest expense recognised	**998**	1,880
Total balance of deposits *	**167,120**	141,492

* For the purposes of this disclosure, the balance reported only includes the related parties of the Credit Union as at balance date.

There are no benefits or concessional terms and conditions applicable to close family members of key management personnel.

24 Related party disclosures (continued)

(e) Other transactions with related parties

The Credit Union and/or borrowing members have received services from entities related to Directors. The nature of services provided and the aggregate amount paid for those services is listed below. All transactions have been entered into on terms and conditions no more favourable than those available to other suppliers.

	2016	2015
	$	$
Fuel purchases - Seen Bros Pty Ltd *	**-**	**496**

* This entity ceased being a related party on 26th November 2015.

25 Outsourcing arrangements

The Credit Union has material outsourcing arrangements with the following suppliers of services:

CUSCAL Ltd

CUSCAL, being an authorised deposit-taking institution under the Banking Act 1959, supplies a banking service to the Credit Union. The Credit Union has invested a sufficient amount of its "minimum liquidity holding" assets with CUSCAL to comply with the Emergency Liquidity Support requirements of the Prudential Standards.

CUSCAL supplies the Credit Union with the rights to VISA Card in Australia and produces VISA cards for use by members. This entity also acts as a clearing house in the process of settlement with bankers for member cheques, EFT and VISA transactions.

CUSCAL also operates the switching computer used to link VISA cards operated through Reditellers, other approved EFT suppliers and VISA acquirers and merchants to the Credit Union's EDP systems.

TransAction Solutions Pty Ltd (TAS)

TAS is contracted to manage the general information technology control environment that supports the core Ultracs Credit Union Solution software application in conjunction with other credit unions.

Ultradata Australia Pty Ltd

Ultradata owns the Ultracs Credit Union Solution software, being the core banking system that the Credit Union uses.

Laminar Capital Pty Ltd

Laminar Capital has been authorised to act as the Credit Union's proxy, to facilitate transactions using the ASX Austraclear system. Transaction instructions from the Credit Union are given to Laminar Capital, who in turn action these instructions on behalf of the Credit Union with the ASX.

Bendigo and Adelaide Bank Ltd

A Receivables Acquisition and Servicing Agreement is in place to allow the Credit Union to sell member loans to Bendigo and Adelaide Bank. This in effect allows the Credit union to move loans off balance sheet, should it choose to do so, in times when liquidity or capital may be approaching risk appetite tolerances.

Ruddicks Chartered Accountants

Ruddicks are contracted to perform work within the scope of Internal Audit.

26 Auditor's remuneration

	2016	2015
	$	$
Amounts received or due and receivable by the External Auditor of Heritage Isle Credit Union (excluding GST) for:		
- Audit of the financial statements and other regulatory audit services of the Credit Union	**51,135**	**48,330**
- Other services - review of ICAAP documentation and Board Training	**2,000**	**4,000**
- Other services - Taxation services	**3,300**	**3,350**
	56,435	**55,680**

The above amounts exclude out of pocket expenses recovered.

	2016	2015
Other transactions between the external auditor (or related entity) of the Credit Union (excluding GST):		
- Lease premise rental income received from related entity of external auditor	**3,000**	**2,880**
	3,000	**2,880**

27 Fair Value Measurement

Fair Value Hierachy

The following table highlights the Credit Union's assets and liabilities, measured and disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value	**$**	**$**	**$**	**$**
Land & buildings	**-**	**1,839,011**	**-**	**1,839,011**
Investment properties	**-**	**-**	**-**	**-**
Total assets	**-**	**1,839,011**	-	**1,839,011**

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value	**$**	**$**	**$**	**$**
Land & buildings	**-**	**1,840,000**	**-**	**1,840,000**
Investment properties	**-**	**-**	**-**	**-**
Total assets	**-**	**1,840,000**	-	**1,840,000**

27 Fair Value Measurement (continued)

The Credit Union has assessed that at balance date, the carrying amount of all financial instruments approximates fair value. Refer to Note 21(h).

Valuation techniques for fair value measurements categorised with level 2

Land and buildings, including investment properties, have been valued based on similar assets, location and market conditions.

28 Events occurring after Balance Date

There were no significant events subsequent to balance date.

Directors' Declaration

For the Year Ended 30 June 2016

The directors of the Heritage Isle Credit Union Ltd (the Company) declare that:

1. The financial statements and notes, as set out on pages 10 to 52, are in accordance with the Corporations Act 2001 and:

    (a) comply with Accounting Standards and the Corporations Regulations 2001; and

    (b) give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Company;

2. In the directors opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Liz Swain
Director

Maree Tetlow
Director

Date: 29th September 2016

Independent Auditors Report

For the Year Ended 30 June 2016

Crowe Horwath

Crowe Horwath Tasmania
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Member Crowe Horwath International

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Independent Auditor's Report to the Members of Heritage Isle Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of Heritage Isle Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in members' equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the Directors' declaration.

Directors' responsibility for the financial report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors Report

For the Year Ended 30 June 2016

Crowe Horwath

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion, the financial report of Heritage Isle Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

I. giving a true and fair view of the entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

II. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Crowe Horwath Tasmania

CROWE HORWATH TASMANIA

DAVID MUNDAY
Partner

Dated at Melbourne this 29th day of September 2016.